

CIPFA Financial Management Code

Report by Gary Fairley, Chief Officer Corporate Solutions

Report for Noting

1 Recommendations

Audit Committee are asked to:

- Note the assessment and improvement actions arising from the self-assessment against the CIPFA FM Code; and
- Note an annual progress report will be presented to CMT.

2 Purpose of Report/Executive Summary

To introduce the CIPFA Financial Management Code and the findings of the self-assessment that has been undertaken.

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3 Background/Main Body of Report

The Financial Management Code (FM Code) produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time, the FM Code sets out the standards of financial management for local authorities.

Local government finance in the UK is governed by primary legislation, regulation and professional standards as supported by statutory provision. The general financial management of a local authority, however, has not until now been supported by a professional code.

The FM Code applies a principles-based approach which is linked to other financial statutory and good practice guidance. It contains the CIPFA Statement of Principles of Good Financial Management. These six principles have been developed by CIPFA in collaboration with senior leaders and practitioners who work within or have a stake in good local authority financial management. These principles are the benchmarks against which all financial management should be judged.

To enable authorities to test their conformity with the CIPFA Statement of Principles of Good Financial Management, the FM Code translates these principles into financial management standards. These financial management standards will have different practical applications according to the different circumstances of each authority and their use should therefore reflect this. The principle of proportionality is embedded within this code and reflects a non-prescriptive approach.

The purpose of the FM Code itself is to establish the principles in a format that matches the financial management cycle and supports governance in local authorities. A series of financial management standards set out the professional standards needed if a local authority is to meet the minimal standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders. Since these are minimum standards, CIPFA's judgement is that compliance with them is obligatory if a local authority is to meet its statutory responsibility for sound financial administration. Beyond that, CIPFA members must comply with it as one of their professional obligations.

CIPFA's intention is that the FM Code will have the same scope as the *Prudential Code for Capital Finance in Local Authorities* (CIPFA, 2017), which promotes the financial sustainability of local authority capital expenditure and associated borrowing. So, although the FM Code does not have legislative backing, it applies to all local authorities, including police, fire, combined and other authorities, which in Scotland are defined in legislation for the purposes of Part 7 of the Local Government in Scotland Act 2003, or to the larger bodies (such as integration joint boards) to which Section 10 of this Act applies.

Financial Management Code

The Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code for the first time sets the standards of financial management for local authorities.

The FM Code is based on a series of principles supported by specific standards which are considered necessary to provide the strong foundation to:

- financially manage the short, medium and long-term finances of a local authority
- manage financial resilience to meet unforeseen demands on services
- manage unexpected shocks in their financial circumstances.

The FM Code is consistent with other established CIPFA codes and statements in being based on principles rather than prescription. This code incorporates their existing requirements on local government so as to provide a comprehensive picture of financial management in the authority.

Each local authority (and those bodies designated to apply the FM Code) must demonstrate that the requirements of the code are being satisfied. Demonstrating this compliance with the FM Code is a collective responsibility of elected members, the Chief Finance Officer (CFO) and their professional colleagues in the leadership team. It is for all the senior management team to work with elected members in ensuring compliance with the FM Code and so demonstrate the standard of financial management to be expected of a local authority. In doing this the statutory role of the Section 95 (S95) officer will not just be recognised but also supported to achieve the combination of leadership roles essential for good financial management. To ensure that self-regulation is successful, compliance with the FM Code cannot rest with the CFO acting alone.

Principles

The FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, this code requires that a local authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances. Good financial management is proportionate to the risks to the authority's financial sustainability posed by the twin pressures of scarce resources and the rising demands on services. The FM Code identifies these risks to financial sustainability and introduces an overarching framework of assurance which builds on existing best practice and for the first time sets explicit standards of financial management.

The underlying principles that inform the FM Code have been developed in consultation with senior practitioners from local authorities and associated stakeholders. The principles have been designed to focus on an approach that will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable through:

- **Organisational leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.

- **Accountability** – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- Financial management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
- Adherence to professional **standards** is promoted by the leadership team and is evidenced.
- Sources of **assurance** are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.
- The long-term **sustainability** of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

Financial management standards

The FM code is split into 7 sections, and 17 standards. Sections 1 and 2 cover important contextual factors which need to be addressed if sound financial management is to be possible. The first deals with the responsibilities of the CFO and leadership team, the second with the authority's governance and financial management style.

The remaining sections, 3 to 7, address the requirements of the financial management cycle, with section 3 stating the need for a long-term approach to the evaluation of financial sustainability. Section 4 looks at the authority's annual budget setting process, followed by stakeholder engagement and business cases (section 5) and performance monitoring arrangements (section 6), and the cycle is completed by section 7, which shows how high quality financial reporting supports the financial management cycle by ensuring that it rests on sound financial information.

Section 1: The responsibilities of the chief finance officer and leadership team

- Standard A: The leadership team is able to demonstrate that the services provided by the authority provide value for money
- Standard B: The authority complies with the CIPFA 'Statement on the Role of the Chief Officer in Local Government'

Section 2: Governance and financial management style

- Standard C: The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control
- Standard D: The authority applies the CIPFA/SOLACE 'Delivering Good Governance in Local Government: Framework (2016)'
- Standard E: The financial management style of the authority supports financial sustainability

Section 3: Long to medium-term financial management

- Standard F: The authority has carried out a credible and transparent financial resilience assessment
- Standard G: The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members
- Standard H: The authority complies with the CIPFA 'Prudential Code for Capital Finance in Local Authorities'
- Standard I: The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans

Section 4: The annual budget

- Standard J: The authority complies with its statutory obligations in respect of the budget setting process
- Standard K: The budget report includes a statement by the chief finance officer in the robustness of the estimates and a statement on the adequacy of the proposed financial reserves

Section 5: Stakeholder engagement and business plans

- Standard L: The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget
- Standard M: The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions

Section 6: Monitoring financial performance

- Standard N: The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability
- Standard O: The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability

Section 7: External financial reporting

- Standard P: The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the 'Code of Practice on Local Authority Accounting in the United Kingdom'
- Standard Q: The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions

Diagram 1 below shows how the standards align with the principles.



Self-assessment process

A short life working group was established in March 2021, with membership from the Chief Finance Officer, Financial Services Manager, Legal Services Manager, Continuous Improvement Manager and Executive Business Manager (Place). An initial review and evidence gathering exercise was undertaken to inform a draft assessment of compliance, with a RAG rating applied to each of the 17 standards. Following this, DMT and Internal Audit were asked to consider the evidence, RAG rating and improvement actions and provide feedback on the assessment, which was presented and endorsed by CMT on 6 October 2021.

Below is the final assessment of compliance with the code:

RAG rating	Progress	No of FM standards
GREEN	Compliance is being demonstrated	11
AMBER	Minor to Moderate improvements are required to demonstrate compliance	6
RED	Moderate to Significant improvements are required to demonstrate compliance	0

Audit Committee are asked to note the assessment and improvement actions set out below. An annual progress report will be presented to CMT for oversight of the plan's delivery. This activity is complementary to Midlothian Council's self-evaluation approach.

Leadership - *demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.*

Standard	Evidence, assessment and actions	Rating
<p>Standard A: The leadership team is able to demonstrate that the services provided by the authority provide value for money</p>	<ul style="list-style-type: none"> • The Council has a duty of Best Value which is subject to consideration as part of the annual audit programme. A Best Value Assurance Report (BVAR) was published in 2019, which identified an improvement plan last updated and reported to Council in June 2021. A Local Area Network (LAN), led by the Council's appointed auditor completes an annual Strategic Risk Assessment (SRA), and areas for further external scrutiny are identified in the National Scrutiny Plan (NSP). Progress against the Best Value improvement plan includes: <ul style="list-style-type: none"> ○ Approval and introduction of a Medium Term Financial Strategy (MTFS) with cross-party support to implement a corporate solution for the 2021/22 budget (ensuring no additional service reductions at an already challenging time for communities). ○ Introduction of a renewal strategy – Midlothian's Route Map through and out of the crisis. ○ A consolidated strategic change programme and board structure with clear governance via Business Transformation Board (BTB)/Business Transformation Steering Group (BTSG). ○ Alignment of change and transformation savings with quarterly financial monitoring and reporting. ○ The MTFS and transformation plans being driven forward by the cross-party BTSG. ○ Alignment of workforce planning activities with the ambition of Midlothian's Route Map and associated priorities. ○ Acceleration of the Capital Programme and appointment of two new Heads of Development to drive the ambitious programme at pace. ○ Progressing plans to review and build on neighbourhood plans and services alongside communities and community partners. • The Annual Governance Statement (AGS) focuses on all aspects of governance and references best value requirements in service provision. • There is a robust corporate reporting framework which contains key sections for financial implications, risk, engagement, best value and equalities. 	<p>GREEN</p>

	<ul style="list-style-type: none"> • Financial performance is regularly reported to Corporate Management Team (CMT) and the Council and all reports set out the best value impact. • Work continues to embed self-evaluation as an improvement tool within services, with a range of methods adopted across the Council, including a corporate model, the Midlothian Excellence Framework which reflects the wider Public Sector Improvement Framework (PSIF) supported by the Improvement Service. Service plans include a range of specific actions and/or areas for planned self-evaluation activities or commit to identifying a programme of self-evaluation and improvement activities. • The Council participates in the Local Government Benchmarking Framework facilitated by the Improvement Service which compares performance across a range of indicators associated with service costs, performance and satisfaction with other Scottish local authorities. Participation in the process and with associated family groups allows the sharing of best practice and the opportunity to learn from others. • MTFS delivers a robust financial plan through a rigorous budget setting process. • Fortnightly financial strategy sessions take place with Chief Executive. • Finance team work with each directorate to manage directorate and service level budgets, forecasting and savings targets. • Council reserves have remained at a sustainable level and provide resources for investment and mitigation of financial risks. • Project and programme risks are monitored at officer led programme boards and are escalated as appropriate. • Our procurement arrangements and contract specifications lead to effective procurement and we have achieved and have realised savings through contract procurements. • Procurement strategy and guidance in place and delegated authority for authorisation of transactions embedded in systems. • Continued implementation of a new Online Payments and Services (OPAS) will enable services to be redesigned with the focus on the customer whilst realising efficiencies in processes. <p>Proposed actions:</p> <p>No improvement actions proposed</p> <p>Continue to maintain this position by regular monitoring of the above</p>	
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Standard	Evidence, assessment and actions	Rating
<p>Standard B: The authority complies with the CIPFA 'Statement on the Role of the Chief Officer in Local Government'</p>	<ul style="list-style-type: none"> • The Chief Officer, Corporate Solutions is a Fellow of the Chartered Association of Certified Accountants (FCCA) and has direct link to the Chief Executive. • The role of Chief Finance Officer (CFO & S95) is reflected in the Council's key governance documents. • Through the Finance team, the CFO provides financial and treasury performance monitoring reports throughout the year to the Council. • The CFO: <ul style="list-style-type: none"> ○ has 39 years local government finance experience ○ is a member of the CMT and has influence on all material businesses decisions, ensuring financial implications are provided on all reports (including all committee reports) ○ has oversight of all financial risks in the development of Medium and Longer Term Financial Planning ○ ensures that all statutory requirements affecting the Council's finances are complied with • The Chief Internal Auditor leads the corporate fraud function that supports the Integrity Group. • The annual Statement of Accounts receives unqualified external audit opinions. • The Finance team has an establishment which has experienced, capable and professionally qualified accountants (CIPFA/CIMA/ACCA). • The team are supported through technical training and provided with opportunities to enhance their skills and knowledge ensuring there resilience within the team. • The Council secured a green rating for financial management and amber for financial sustainability from External Audit in 2020. <p>Proposed actions: No improvement actions proposed Continue to maintain this position by regular monitoring of the above</p>	<p>GREEN</p>

Standard	Evidence, assessment and actions	Rating
<p>Standard O: The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability</p>	<ul style="list-style-type: none"> • The Council has a reserves strategy, which sets out a framework for useable reserves. • The Council has mitigated financial risk through the earmarking of reserves. • Potential costs associated with emerging events and risks are assessed and accounted for as required. They are covered in detail in Disclosure notes to the Financial Statements. • The Council complies with both the Prudential Code and the CIPFA Treasury Management Code. Both elements are reported quarterly to CMT, Audit Committee and to Council with Capital Expenditure planned and managed through the Capital Plan and Asset Management Board (CP&AMB). • Provisions are made for bad and doubtful debts which ensures that non collection of Council Tax, rent and other sums due does not impact on financial sustainability. Detailed analysis of short term assets and liabilities takes place alongside an assessment of bad debt provision. Any material costs or risks incorporated in this are picked up in the Financial Statements and Financial Monitoring reports if required. • Whilst the accounts reflect the ISA 19 reporting requirements in respect of pensions there is a triennial review of the Lothian Pension Fund in which the Council participates and the contribution rates considered. • Formal arrangements are in place with the internal value in respect of the revaluation of assets. • Financial sustainability monitored as risk on the corporate risk register, reviewed quarterly • The renewal strategy identified in the Midlothian Route Map is underpinned by the following strategic boards, each having a clear Terms of Reference and a responsibility to provide regular progress/update reports via clear governance route to BTB/BTSG: <ul style="list-style-type: none"> ○ Digital First Strategic Board ○ Capital Plan & Asset Management ○ Economic Renewal ○ Place – Hub & Spoke ○ Remote Working ○ Children, Young People and Partnership ○ Health and Social Care Partnership <p>Proposed actions: No improvement actions proposed Continue to maintain this position by regular monitoring of the above</p>	<p>GREEN</p>

Accountability - based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.

Standard	Evidence, assessment and actions	Rating
<p>Standard D: The authority applies the CIPFA/SOLACE 'Delivering Good Governance in Local Government: Framework (2016)'</p>	<p>The CMT undertook a full self-evaluation of the Local Code of Corporate Governance during the year 2021/21 in consultation with Internal Audit. This included the consideration of examples of evidence such as systems, processes and documentation to demonstrate compliance with the Framework's seven core principles of good governance, supporting principles and a range of specific requirements. The updated Local Code of Corporate Governance was scrutinised by Audit Committee and approved by Council in March 2021.</p> <p>An annual review of the adequacy and effectiveness of the Council's overall governance framework is carried out with the output of this being the AGS. The AGS explains how the Council has complied with the terms of the CIPFA/SOLACE framework, sets out the Council's governance arrangements and systems of internal control, reports on their effectiveness, and sets out further improvement to enhance the effectiveness of internal control and governance arrangements and compliance against the Local Code. The statement also covers relevant governance matters as they affect those entities included as part of the Council's Group Accounts This is presented for endorsement by the Audit Committee, prior to being published in the Annual Statement of Accounts in September of each year, and is approved by signature by the Chief Executive and Council Leader at the conclusion of external audit processes.</p> <p>The overall aim of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' is to ensure that:</p> <ul style="list-style-type: none"> • Resources are directed in accordance with agreed policy and according to priorities; • There is sound and inclusive decision making; and • There is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities. 	<p>AMBER</p>

	<p>Improvement areas of governance in the AGS 2020/21 include:</p> <ul style="list-style-type: none"> • Update of Financial Regulations and Directives • Ensure that the action taken to strength resource capacity and skills in the Procurement function strengthens compliance with the Council's procurement strategy and procedures <p>Proposed actions: Continue to implement the 11 improvement areas of governance in the AGS 2020/21</p>	
Standard	Evidence, assessment and actions	Rating
<p>Standard P: The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the 'Code of Practice on Local Authority Accounting in the United Kingdom'</p>	<ul style="list-style-type: none"> • CMT receive and scrutinise quarterly budget and performance monitoring reports. • The CFO is fully aware of the requirements of the financial statements, which are fully compliant and have been unqualified for a number of years, without the need for anything other than mainly presentational issues amendments. • The CFO undertakes a performance appraisal with the Executive Director Place and performance objectives are monitored at monthly one-to-one meetings. • The Statements of Accounts have met the statutory deadlines, for both unaudited and audited accounts. <p>Proposed actions: No improvement actions proposed Continue to maintain this position by regular monitoring of the above</p>	<p>GREEN</p>

Standard	Evidence, assessment and actions	Rating
<p>Standard Q: The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions</p>	<ul style="list-style-type: none"> • CMT receive and scrutinise the final outturn report and these are presented to Council as part of a suite of yearend financial performance reports. They build on the formal quarterly reporting cycle of reports with recovery actions, if required, discussed and agreed at quarterly financial monitoring CMT. • The reports includes details of carry forwards, in line with the scheme of devolved budget management and reflecting carry forward of specific government grant streams. • The Council has a MTFS allowing visibility for CMT and elected members on projected future costs and income streams. • BTB and BTSG have a remit to progress development of the MTFS with a corporate solution in place for 2021/22 and similar proposed for 2022/23, the last budget to be determined by this term of Council. A MTFS for the next term of Council will be presented to members in May 2022. • Cross party engagement on the MTFS takes place at BTSG on a regular basis as covered in the reported budget setting timetable for each forthcoming financial year. • Draft Financial Statements are finalised by the end of June each year with Audited Statements following in September. • Throughout the COVID-19 pandemic emergency phase, the Chief Executive met weekly with the group leaders and deputy leaders of the three political groups as part of the regular reporting arrangements agreed. <p>Proposed actions: No improvement actions proposed Continue to maintain this position by regular monitoring of the above</p>	<p>GREEN</p>

Transparency - Financial management is undertaken with transparency at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making

Standard	Evidence, assessment and actions	Rating
<p>Standard L: The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget</p>	<p>The Council has worked hard to develop and sustain more constructive relationships between members and between members and officers. The MTFS was approved by Council in June 2019 with cross party recommendations made to Council in February 2021 to implement a corporate solution for the 2021/22 budget.</p> <p>To inform the MTFS, a public consultation visionary exercise was carried out in April 2019 and highlighted the following key priorities for what Midlothian should be like in 2040:</p> <ul style="list-style-type: none"> • A sense of belonging: Pride in communities, working in partnership, transparency in decision making and accessibility in service provision • A balanced infrastructure: Manageable housing numbers, vibrant towns, protected green spaces, a clean, carbon neutral environment and improved community transport • Learning and working together: High quality education and training, jobs close to where people live, a main provider of local food production, maximising technological solutions • Intergenerational opportunities: Reimagined older people services, being able to grow old in the one community, with support and good access to health and social care. <p>In addition to the visioning exercise the following key themes were explored as part of the consultation programme:</p> <ul style="list-style-type: none"> • One Council - Working with You, For You is underpinned by a commitment to deliver a one council strategy which reduces silo working within services, increases cross party working at a political level and uses holistic approaches which place individuals and communities at the heart of our work. • Preventative and Sustainable responds to Communities telling us strongly that they want to live in a clean, carbon neutral environment with protected green spaces and improved environmentally friendly community transport options. • Efficient and Modern recognises that Midlothian Council needs to adapt to change by doing things differently to get improved results and increasing financial sustainability by addressing inefficiencies. • Innovative and Ambitious recognises our ambition for Midlothian and to make sure it is a great place to grow, now and in the future. 	<p>AMBER</p>

	<p>The cross-party BTSG is driving forward the MTFS including supporting transformation plans. The Council has long term financial planning covering the Housing Revenue Account and Capital Investment. Financial Planning Horizons for the General Fund Revenue Account are limited reflecting the current annual grant setting regime.</p> <p>The Midlothian Route Map through and out of the crisis sets out a flexible and iterative renewal plan for the Council, in association with partners, to recover from the COVID-19 pandemic. The plan recognises the need to work with partners to continue to change the way we work and identifies priority interventions to support recovery.</p> <p>Proposed actions: Engagement plan for next iteration of the MTFS requires to be developed and agreed after the May 2022 election</p>	
Standard	Evidence, assessment and actions	Rating
Standard M: The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions	<p>The Capital Plan and Asset Management Board (CP&AMB) maintains oversight of the capital plans and oversees the delivery of the wide range of investment projects provided for in the plans. The Council has updated its governance structure for the CP&AMB. The structure establishes clear roles and responsibilities, decision making and reporting process as well as introducing five new programme delivery boards to support the CP&AMB. As part of the governance, the Council has established a business case approach to project development as well as an approved change control procedure and an escalation process for risk and issue management. The board continues to implement a gateway review and reporting process (at this point for all projects over £1m). Programme dashboards and highlight reports are provided to allow BTSG oversight of progress in delivering capital projects and to keep all members informed of progress in their ward. The governance structure and gateway review process is designed to strengthen the overall management of projects, provides a means to more effectively monitor projects against the agreed milestones and allows risks to be monitored and managed effectively.</p> <p>The Council's annual Treasury Management and Investment Strategy is considered in line with budget arrangements. In particular the presentation of the Council's Treasury Management and Investment Strategy at the</p>	AMBER

	<p>same time as the capital investment plan allows elected members to consider the impact of decisions on borrowing plans. The Borrowing Strategy sets out the prioritised borrowing methods the Council could use, as well as setting limits on types of borrowing and the debt maturity structure.</p> <p>Experience gained from business case assessment of recent projects, along with renewed management arrangements for the capital programme, provides a solid foundation for further development of the Council's approach in this area.</p> <p>Proposed actions:</p> <p>Review of recent projects and learning</p>	
Standards - <i>Adherence to professional standards is promoted by the leadership team and is evidenced.</i>		
Standard	Evidence, assessment and actions	Rating
Standard H: The authority complies with the CIPFA 'Prudential Code for Capital Finance in Local Authorities'	<p>The Council fully complies with the CIPFA Prudential Code. The Council has approved Capital Investment Strategy and rolling Capital plans which include the requirement to assess schemes ensuring the best outcomes are achieved from our capital investments.</p> <p>The Prudential Code sets out a framework that is intended to ensure that the linked capital investment plans of local authorities are affordable, prudent and sustainable. In 2020/21 as part of the wider scope audit procedures, EY carried out an interim review to consider whether the Council's Treasury Management and Investment Strategy is in line with the principles of the Prudential and Treasury Management codes. They found that the Council's policies and procedures reflect the requirements within CIPFA's Treasury Management Code and Prudential Code. Key points from the EY report to evidence compliance:</p> <ul style="list-style-type: none"> • EY have reviewed the Council's arrangements against the current Codes and made recommendations to support continuous improvement which have all been implemented. There were no high rated actions • The Council's internal auditors reviewed compliance with the Treasury Management Code and Practices in 2018. They reported that they were satisfied that the Treasury Management function had comprehensive policies and procedures in place and determined overall that the arrangements provided "substantial assurance" – three medium-rated recommendations. • The Council outlines its consideration of its borrowing and investment strategies within the annual Treasury 	GREEN

	<p>Management and Investment Strategy. The Prudential Code requires councils to demonstrate that capital investment proposals are affordable, prudent and sustainable. The Council has a substantial investment programme in place to respond to a quickly growing population.</p> <p>The three main Treasury Management Strategy reports are scrutinised by Audit Committee in advance of consideration and approval by Council, in response to Internal Audit recommendation.</p> <p>Proposed actions: Continue to maintain this position by regular monitoring of the above</p>	
Standard	Evidence, assessment and actions	Rating
<p>Standard J: The authority complies with its statutory obligations in respect of the budget setting process</p>	<ul style="list-style-type: none"> • Legislation requires the Council to set council tax and determine a budget for the year ahead. The Council has done so despite challenging grant settlements and limited time from grant announcements to the deadline for setting the budget. • The adoption of the MTFS and corporate solution assist delivery of this requirement. • BTSG endorse forward planning assumptions for budget and agree the schedule of reports which will support the annual decision making process culminating in BTSG making recommendations to Council in respect of Council tax and service budgets. • Budget reports to CMT and to Council include commentary on key assumptions and estimates that are included in the cost and income base. • Commentary of the Reserves position is included in all budget reports including earmarking and recommended minimum levels of non-earmarked reserve. <p>Proposed actions: No improvement actions proposed Continue to maintain this position by regular monitoring of the above</p>	<p>GREEN</p>

Standard	Evidence, assessment and actions	Rating
Standard K: The budget report includes a statement by the chief finance officer in the robustness of the estimates and a statement on the adequacy of the proposed financial reserves	<p>This requirement is not applicable in Scotland however, the CFO advises Council on the budget recommendations for the year ahead, the affordability of Capital plans and the adequacy and use of reserves.</p> <p>Budget reports to CMT and to Council include commentary on key assumptions and estimates that are included in the cost and income base.</p> <p>Commentary of the Reserves position is included in all budget reports including earmarking and recommended minimum levels of non-earmarked reserve.</p> <p>Proposed actions: No improvement actions proposed Continue to maintain this position by regular monitoring of the above</p>	GREEN
Assurance - Sources of assurance are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.		
Standard	Evidence, assessment and actions	Rating
Standard C: The leadership team demonstrates in its actions and behaviours responsibility for governance and	The AGS explains how the Council has complied with the terms of the CIPFA/SOLACE framework, sets out the Council's governance arrangements and systems of internal control, reports on their effectiveness, and sets out further improvements to enhance the effectiveness of internal control and governance arrangements and compliance against the Local Code. The statement also covers relevant governance matters as they affect those entities included as part of the Council's Group Accounts.	AMBER

internal control	Proposed actions: Continue to implement the 11 improvement areas of governance in the AGS 2020/21 Continue to maintain this position by regular monitoring of the above	
Standard	Evidence, assessment and actions	Rating
Standard F: The authority has carried out a credible and transparent financial resilience assessment	<ul style="list-style-type: none"> The reserves strategy approved by Council sets out the level of reserves assessed as appropriate to support financial resilience and sets out minimum level of reserves at which intervention is then required by Council. Projections on reserves are incorporated into the MTFS. The MTFS sets out forward projections and the impact of variations in key assumptions. The MTFS includes projections of costs and income with accompanying sensitivity analysis in key areas. The annual external audit programme sets out an assessment of financial sustainability, current assessed as amber, Financial sustainability is identified as a strategic risk and is reported quarterly. All risks have identified mitigations. <p>Note - the CIPFA financial resilience index encompasses English Local Authorities only and does not cover Scotland. In any event it has limitations as uses historic data</p> <p>Proposed actions: No improvement actions proposed Continue to maintain this position by regular monitoring of the above</p>	GREEN
Standard	Evidence, assessment and actions	Rating
Standard N: The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial	<ul style="list-style-type: none"> The Council has overall responsibility for directing and controlling the organisation. The Cabinet is the principal decision-making committee of the Council. The Performance Review and Scrutiny Committee is responsible for reviewing performance against policy objectives and commenting on decisions and policies and their impact. The Chief Officer Corporate Solutions (the Section 95 officer) is responsible for the proper administration of all aspects of the Council's financial affairs including ensuring appropriate advice is given to the Council on all financial matters. The Council's External Auditors report annually to Council on a variety of matters including financial management and sustainability. This includes an agreed management action plan. 	AMBER

sustainability	<ul style="list-style-type: none"> • Internal Audit, in accordance with an annually agreed Audit Plan, report findings and recommendations to CMT and to Audit Committee. • The Council's system of internal financial control is based on a framework of financial regulations, regular management information, administrative procedures (including segregation of duties), management supervision and a system of delegation and accountability. • A MTFS was approved by Council in June 2019. Revenue and Capital Budget Monitoring reports are presented to the Council on a quarterly basis for monitoring and control purposes including the annual outturn. The Management Commentary in the Statement of Accounts provides financial and other performance information regarding the operation of the Council, its wider achievements and areas for development. • As part of the MTFS a corporate solution is in place for 2021/22 budget and same proposed for 22/23. • The Council is continuing to develop the next MTFS which will be presented to the new Council post May 22 elections • Fortnightly financial strategy sessions are held with the Chief Executive, Executive Director Place, CFO and Financial Services Manager with briefing notes setting out the issues to be covered. • The quarterly reports to the Management Team provide detail of variances and estimates of forecasts and are scrutinised at dedicated CMT sessions. Management Team have been engaged in the development of these reports and feedback is sought on improvement and or changes to ensure they remain relevant and meet their requirement. • The Council has a risk management policy and approach whose main priorities are the robust systems of identification, evaluation and control of risks which threaten the Council's ability to meet its objectives to deliver services to the public. An Internal Audit review in 2021 highlighted the need to review and refresh the risk management policy and guidance and develop a consistent approach to quarterly risk review and reporting processes at service/operational level. • The Council on 25 August 2020 approved a refreshed Counter Fraud Policy Statement and Counter Fraud Strategy to tackling fraud, theft, corruption and crime, as an integral part of protecting public finances, safeguarding assets, and delivering services effectively. A new Integrity Group plays a key role in delivering the strategy to improve the Council's resilience to fraud. <p>Proposed actions: Development and member agreement to the next MTFS covering the term of the next Council Deliver an elected member seminar on Contingency Planning</p>	
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	Review and refresh the Risk Management Framework to enhance its application following Internal Audit	
Sustainability - <i>The long-term sustainability of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.</i>		
Standard	Evidence, assessment and actions	Rating
Standard E: The financial management style of the authority supports financial sustainability	<ul style="list-style-type: none"> Financial Monitoring CMT meetings continue to take place with those meetings receiving both the draft quarterly financial monitoring report and appendices for scrutiny and challenge. Also, where appropriate, additional information which outlines the basis of financial projections and the key risks associated with these is also provided. Financial Strategy meetings attended by the Chief Executive, Executive Director Place, Chief Officer Corporate Solutions and Financial Services Manager continue on a fortnightly basis and provide a forum to review and refine the financial strategy and address issues as they emerge. Future year financial implications of in-year service developments are captured and incorporated into the MTFS. The Council's External Auditors report annually to Council on a variety of matters including financial management and sustainability. This includes an agreed management action plan. Internal Audit, in accordance with an annually agreed Audit Plan, report findings and recommendations to CMT and to Audit Committee. The Internal Audit Annual Assurance Report (IAAAR) includes the independent opinion on internal controls, risk management and governance, and this is used to inform the AGS. The IAAAR 2020/21 states "Further work is required to implement recommendations made in previous years' audits relating to budget monitoring, and internally providing financial management information". The Council's Senior Leadership structure supports the strategic delivery of the Council's Vision and ambition which includes the MTFS and the Route Map through and out of the crisis. <p>Proposed actions: Continue to maintain this position by regular monitoring of the above</p>	GREEN

Standard	Evidence, assessment and actions	Rating
Standard G: The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members	<ul style="list-style-type: none"> The Council have worked hard to develop and sustain more constructive relationships between members and between members and officers. The cross-party BTSG is driving forward the medium term financial strategy including supporting transformation plans. Throughout the COVID-19 pandemic emergency phase, the Chief Executive met weekly with the group leaders and deputy leaders of the three political groups as part of the regular reporting arrangements agreed. In 2019/20 meeting dates were aligned in order that reports would go to CMT or Financial Monitoring prior to Audit Committee, or Council where appropriate. The CFO updates members on the financial outlook, particularly grant settlements and shares regular economic briefings on issues pertinent to local government finance. CMT/BTB/BTSG/Council reporting of projections and reserves alongside commentary on risks, assumptions, weaknesses in figures etc. <p>Proposed actions: No improvement actions proposed Continue to maintain this position by regular monitoring of the above</p>	GREEN
Standard	Evidence, assessment and actions	Rating
Standard I: The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans	<ul style="list-style-type: none"> The MTFS was approved by Council in June 2019. In addition to the position reported in December 2020, the Council agreed on 28 February 2021, on the recommendation of the BTSG, the 2021/22 budget. BTSG unanimously endorsed the adoption of a corporate solution to secure financial balance for the 2021/22 and 2022/23 budgets. The adoption of the corporate solution for the 2022/23 budget, the remaining budget that falls within the term of this Council, allows officers to commence work on developing a MTFS for the term of the next Council for consideration after the elections in May 2022. <p>Action Development and member agreement to the next MTFS covering the term of the next Council</p>	AMBER

4 Report Implications (Resource, Digital and Risk)

4.1 Resource

No additional resource implications. Resource to complete the improvement actions will be met from existing budgets.

4.2 Digital

No digital impact identified

4.3 Risk

The financial management standards set out the professional standards needed if a local authority is to meet the minimal standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders. CIPFA members must comply with it as one of their professional obligations. Non-compliance would have serious financial and governance risks to the Council.

4.4 Ensuring Equalities (if required a separate IIA must be completed)

The FM Code does not relate to a new or revised policy, service or budget change that affects people, as such an IIA is not required.

4.4 Additional Report Implications (See Appendix A)

See Appendix A

Appendices

Appendix A – Additional Report Implications

Appendix B – Background information/Links

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Good practice in financial management and sound financial sustainability is fundamental to the Council's ability to deliver against all the priorities within the Single Midlothian Plan.

A.2 Key Drivers for Change

Key drivers addressed in this report:

- ☐ Holistic Working
- ☐ Hub and Spoke
- ☐ Modern
- ☒ Sustainable
- ☒ Transformational
- ☒ Preventative
- ☐ Asset-based
- ☒ Continuous Improvement
- ☐ One size fits one
- ☐ None of the above

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

- ☒ One Council Working with you, for you
- ☒ Preventative and Sustainable
- ☒ Efficient and Modern
- ☐ Innovative and Ambitious
- ☐ None of the above

A.4 Delivering Best Value

Compliance with the FM Code demonstrates how the Council is achieving Best Value.

A.5 Involving Communities and Other Stakeholders

The self-assessment process involved evidence contributions from Legal, Finance, Audit and all directorates via DMTs.

A.6 Impact on Performance and Outcomes

Good practice in financial management and sound financial sustainability is fundamental for the Council to perform effectively.

A.7 Adopting a Preventative Approach

Sound financial stability promotes a preventative approach.

A.8 Supporting Sustainable Development

Compliance with the FM Code ensures financial sustainability.

APPENDIX B

Background Papers/Resource Links (insert applicable papers/links)

CIPFA FM Code 2019